

“MOF Corporate Statistics”; Capex keeps growing

“Financial Statements Statistics of Corporations by Industry”, so-called “MOF Corporate Statistics” is the aggregate financial statement data of approximately 22,900 Japanese corporations (approx.19,300 corporations, excluding financials and insurers). The Ministry of Finance (MOF) releases the report on quarterly basis. This report shows those companies’ sales and profits growth and latest balance sheet and capex. Since capex is a basic data to calculate Gross Domestic Product (GDP), market pays special attention to it.

Point 1

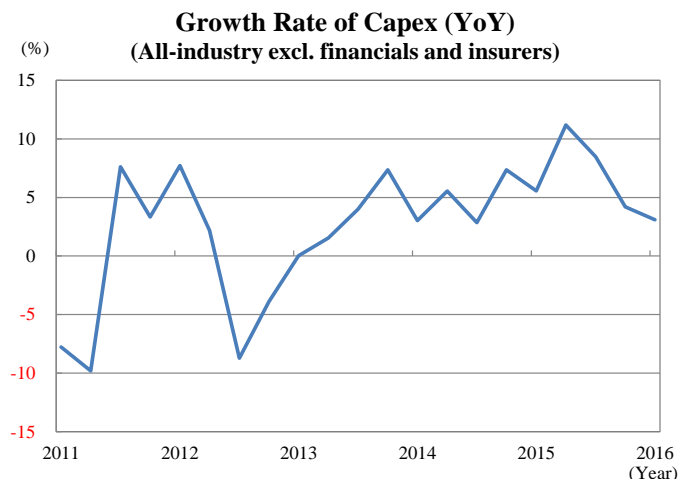
Capex rose for 13 consecutive quarters, still on a path toward growth Growth rate increases in manufacturers, but declines in non-manufacturers

- The Ministry of Finance released “April-June 2016 MOF Corporate Statistics” on 1st September. The report shows capital expenditures (capex, hereafter) of all-industry (excluding financials and insurers) was +3.1% YoY increased for thirteen consecutive quarters, although it has fallen from its peak of +11.2% YoY marked in July-September 2015 quarter. While, manufacturers increased +11.1% YoY more than +6.7% YoY of the previous quarter (January-March 2016), non-manufacturers turned negative by -1.3% YoY from +2.9% YoY of previous quarter.
- If we look at breakdown of size of the companies, capex of small-sized companies which had led overall capex, peaked out in 2015. On the other hand, capex of large-scaled companies is on the growing trajectory.

Point 2

Decrease of both revenue and earnings continues Significant negative impact of stronger JPY

- The revenue of all-industry (excluding financials and insurers) was -3.5% YoY declined for three consecutive quarters. Manufacturers were -5.3% YoY due to decrease in revenues of Oil & coal and Information & communication electronics equipment sectors. Non-manufacturers were -2.8% YoY due to Whole sellers and Retailers sectors.
- Meanwhile, the recurring profits declined by -10.0% YoY, also for three consecutive quarters, with a wider YoY decline than in the previous quarter. This was due to manufacturers including Transportation equipment who saw over -22.4% decrease in their profits because of stronger JPY .



(Note) Data period is from Apr.-Jun. 2011 quarter to Apr.-Jun. 2016 quarter.
(Source) SMAM, based on the Ministry of Finance data.

Corporate earnings are expected to improve toward the second half of year 2016

- April-June 2016 MOF Corporate Statistics was not that encouraging as corporate earnings continued to deteriorate despite capex continued to show solid growth. However, there are few bright spots in future. Recurring profits decreased from the previous year, however, it turned positive of 0.1% from January-March 2016 quarter (seasonally adjusted).
- This is likely due to negative impact of JPY appreciation and weaker commodity price became less from the previous quarter. We believe in incremental recovery of corporate earnings towards the end of year 2016, as positive effect of economic measures by the Japanese government is also expected going forward.

■ Disclaimer

Please read this disclaimer carefully.

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter “SMAM”), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM’s judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM’s authorization, or from disclosing this material to a third party.

Registered Number: Kanto Local Finance Bureau (KINSHO) No.399
Member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and
Type II Financial Instruments Firms Association
© Sumitomo Mitsui Asset Management Company, Limited

